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REDEPLOYMENT OF INDUSTRIES FROM DEVELOPED TO DEVELOPING COUNTRIES *

by

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C O N T E N T S

Page

1. Part I - Concept and Operative Principles 1
2. Introduction 1
3. Concept of Redeployment 2
4. General Principles for Redeployment 5
5. Part II. - India and Redeployment 8
6. Conclusion 12

PART I

CONCEPT AND OPERATIVE PRINCIPLES

INTRODUCTION

The Lima Declaration and Plan of Action, adopted at the Second General Conference of UNIDO held in Lima in March 1975, prescribed a specific pattern and rate of world industrial evolution in the next few development decades. The crux of the declaration was that the developing countries' share in the total world industrial production should be increased to the maximum possible extent and, as far as possible, to at least 25% of the total world industrial output by the year 2000 A.D. At the same time, every endeavour was to be made to ensure that the growth achieved was evenly distributed among the developing countries. This implied that the developing countries had to increase their industrial growth at a rate considerably higher than the 8% recommended in the International Development Strategy for the Second United Nations Development Decade.

According to the industrial survey published by UNIDO for the forthcoming Third General Conference, the developing countries accounted for about 9% of the world manufacturing output in 1977. On current projections, and assuming that the future growth of world manufacturing value added continues at the rates calculated for the period 1960-1975, the developing countries would achieve a share of only 13.9% of world manufacturing output by the year 2000. Even this estimation is subject to reasonable doubt since it does not take into account recent developments affecting industrial output such as the energy crisis, the world wide inflation and the consequent curbing of consumer demand in the markets of the developed world. Obviously, if the Lima target is to have any meaningful significance, positive steps will have to be taken to alter the structure of production both in the developed as well as the developing countries in a manner calculated to give additional weightage to the latter. Redeployment of industry is an obvious mechanism by which such structural shift can be brought about. It is necessary to devise a new set of policies designed to encourage structural shift in world industrial production aimed not only at a fuller and better utilisation of natural and human resources but also to substantially alter the distribution of industrial assets among the countries of the world.

This paper seeks to trace, briefly, the concept of redeployment as it emerged in the Lima Conference, and subsequent international fora, in an attempt to underlin its salient features and operational aspects. It then analyses the general principles which should determine the physical shift of industries to developing countries while safeguarding any possible damage or injury to existing industrial units. It also describes India's policies in this field. It is hoped that such an analysis will be of assistance to developing countries in assessing their own policies and priorities in the light of international experience and in helping to establish suitable institutions and measures for fostering and accelerating redeployment.

CONCEPT OF REDEPLOYMENT

Paragraph 59(c) of the Lima Declaration and Plan of Action outlines the general nature of the concept of redeployment. The developed countries are asked to --

> "Facilitate development of new and strengthen existing policies, taking into account their economic structure and economic, social and security objectives, which would encourage their industries which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy, thus leading to structural adjustments within the developed countries, and redeployment of the productive capacities of such industries to developing countries and promotion of a higher degree of utilization of natural resources and people in the latter"

Paragraph 61 (d) of the Lima Declaration and Plan of Action, while speaking of cooperation between developing and developed countries, stated that it should take the following forms:

> "Urgent consultations, taking into account appropriate information with respect to the development of demand and supply, availability of production factors and their costs, the possibilities and conditions of investment and the availability of appropriate equipment and technologies, with a view to facilitating, within a dynamic context and in accord with authorities available to Governments, the redeployment of certain productive capacities existing in developed countries and the creation of new industrial facilities in developing countries. These consultations should in particular relate to industries processing raw materials exported by developing countries or which consume vast quantities of energy, and should result in concrete proposals for inclusion in the development programmes of participating developing countries"

The concept of redeployment received the approval of the United Nations General Assembly and two Assembly resolutions (31/163 and 3362 (S-VII) urged the developed countries to facilitate the development of new policies, and strengthen existing policies, which would encourage the redeployment of their industries to developing countries. This idea received its clearest expression in the following recommendations made by UNCTAD at its IVth session held in May, 1976.

> "Developed countries should facilitate the development of new policies and strengthen existing policies that would encourage domestic factors of production to move progressively from the lines of production which are less competitive internationally, especially where the long-term comparative advantage lies in favour of developing countries, thus providing, inter alia, larger export possibilities for the developing countries and contributing to the attainment of their development objectives. The development and strengthening of such policies would encourage the redeployment of the industries of the developed countries which are less competitive internationally to developing countries, thus leading to structural adjustments in the former countries and a higher degree of utilization of natural and human resources in the latter. Such policies may take into account the economic structure and the economic, social and security objectives of the developed countries concerned and the need for such industries to move into more viable lines of production or into other sectors of the economy".

UNCTAD V, meeting in May-June 1979, re-endorsed the recommendations of UNCTAD IV relating to redeployment.

In terms of definition, the UNIDO Secretariat suggested in its note to the Industrial Development Board (ID/B199) that the following definition of the term redeployment should be applied:

> "In order to accommodate the various forms, conditions and decision-making processes for industrial resource transfer to developing countries, it may be more appropriate to see redeployment as a form of international industrial co-operation for resource transfers aimed at establishing productive capacities in the developing countries with a view to increasing these countries' share in total world industrial production on the basis of each country's factor and skill endowment, development objectives and other socio-economic considerations. Given this broad framework for redeployment, it may encompass not only private enterprise co-operation but also intergovernmental

arrangements and it may assist the international community in considering the various specific forms of co-operation on their own merits against the more general objectives".

This definition provides a sound working base for understanding the concept of redeployment. Redeployment implies the physical transfer of productive assets in the industrial sector from the developed to the developing countries in order to strengthen the foundations for economic growth in the latter. This is the most obvious, the most accepted form of redeployment. There are, however, at least 3 other forms of international economic interaction through which redeployment can be affected:

The first is where investment decisions for setting up future capacity in the developed countries are deferred and instead the investments are redirected to developing countries. Examples of such types of redeployment could be where transnational firms divert their future expansion programmes to existing or projected units in developing countries.

The second type of redeployment would be in sectors where commodity production takes place in a number of stages with the developing countries' production system being linked to the primary or semi-finished low value output and the developed countries finishing the product and marketing it with tremendously increased value added. Redeployment would, in this context, imply a shift in the system of production with the developing countries taking an increasing share in the production of the higher value finished products.

The third form of redeployment is, in a way, indirect in its applications and impact. This concerns situations where products from the developing countries have difficulty in obtaining free and fair access into the markets of the industrialised economies. Were the marketing system to be streamlined, the production base in the developing countries would receive not only greater impetus for increased output, but also higher returns in terms of value and profitability facilitating the transfer of industrial capacity from developed countries, again on the basis of comparative advantage.

It will be seen, therefore, that redeployment of industries from the developed to the developing countries could have various connotations apart from just the physical transfer of assets in favour of developing countries. Basic to any definition of redeployment would be systems, procedures or mechanisms by which the structure of industrial production shifts in favour of developing economies.

Correspondingly, any policies, decisions or organisations which facilitate or bring about this transformation could justifiably be termed favourable to redeployment. Seen in this light, redeployment constitutes the essence of the changing mode of production in the world's industrial system.

It would be necessary to mention one other aspect of redeployment which has an important bearing on the operational practicalities of the concept. Redeployment can never be a purely government to government transaction. In almost all the developed countries, the government is not directly the owner of the means of production. Similarly, in developing countries, in spite of the extension of the public sector as a working concept in many economies, the government does not directly own all industrial ventures. In both the developed and the developing countries, industrial activity is conducted by private or government backed corporations and firms who control the actual means of production. At the same time, however, the governments concerned prescribe and implement policies which can facilitate structural shifts in industrial production. There are thus four parties involved in the process of redeployment, each having an important role to play in the actual translation of the concept:

(a) the entrepreneur in the developed country;
(b) the government of the developed country;
(c) the entrepreneur in the developing country; and
(d) the government of the developing country.

It is important to accept these constituents in the redeploy ent mechanism in order to understand the factors which could hinder or accelerate the process.

GENERAL PRINCIPLES FOR REDEPLOYMENT

The basic guiding principle for any major redeployment effort must rest on a clear recognition of the ultimate economic rationality inherent in the process. It is in the interest of the economic welfare of both the developed and the developing countries that the industrial structure be reorganised along the lines of the most efficient production system possible. Comparative advantage in production techniques would thus become the acid test for determining the global relocation of industries. During the past few decades, the cost structures and labour market conditions in almost all developed countries have escalated to a point where the marginal unit product cost greatly reduces or nullifies its comparative advantage. High labour costs, rising raw material and finishing charges, newly i osed environmental protection charges and - last but not the least - the spiralling energy bill, have all combined to

make unit production uneconomical in many commodity sectors in the developed world. While this is particularly true of a wide variety of lab our intensive industries, the argument also holds for some of the less capital intensive industries and also for technologically sophisticated branches and products. In such a situation, the developing countries, with their offer of an abundant supply of cheap and well disciplined labour, greater access to raw materials, lower energy and anti-pollution costs, lower building and ground costs certainly possess clear advantages for the setting up of more efficient production units.

As a recent report emanating from UNIDO correctly states:[1]

> "Barring the introduction of protectionist policies or other measures by the developed countries, which would change this newly emerging attractiveness of industrial sites in the developing countries, the international division of labour will most probably continue to develop along the lines established during the past decade: continued growth of labour intensive and raw material intensive industry in the developing countries; increasing redeployment of capital intensive production in the late stages of the produce cycle to the developing countries; maintenance of capital intensive sectors in the early stages of the product cycle in the developed countries; and maintenance and expansion of human capital intensive industry - industry requiring a sophisticated service sector, R&D facilities, and a highly qualified and flexible labour force - in the developed countries".

Economic rationality can at best point the way; what is required to implement the free flow of industry on the comparative advantage principle is a set of measures both in the developed and the developing countries which remove impediments in the way of such transfers. In this context, the UNIDO Study referred to has made certain tentative suggestions[2]. Action along these lines is strongly for the setting up of agencies for conducting continuous analytical research and forecasting of structural changes in both the developing and the developed countries. Such agencies could, through a system of international feedback and exchange,

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1/ Industrialisation For the Year 2000: New Dimensions. Joint Study on International Industrial Co-operation, UNIDO May 1979. pp. 37-38.

2/ Op cit., pp. 45-46.

establish the groundwork upon which substantial redeployment activity could take place. What is even more pertinent, such studies could bring into focus the beneficial aspects of redeployment for the international economy as a whole and thereby help to evoke public awareness of the necessity for international resource transfer. Government policies are, after all, a significant reflection of public needs and a free interchange of world resources must base itself on the willing and active cooperation of all parties concerned.

A free flow of world production forces should not, of course, be taken to imply a sanction for unrestricted exploitation. Redeployment should not be looked upon as a means for the extraction of surplus value from developing countries through outright exploitation of natural resources or cheap labour. Neither should it be construed as an escape for the environmental and pollution controls in the developed countries in order to transfer such pollution to emerging economies. All too often in the past, redeployment was treated as a shift of outmoded technologies to developing countries, and capacities were created having neither the resilience nor the competitiveness to face superior techniques of western production. Such policies only succeed in creating conditions which prove counterproductive in the long run. Mutual suspicion and acrimony arise and the whole basis for a new International Economic Order comes in jeopardy. Instead, redeployment should be integrated into the development plans and industrial policies of the developing countries. The redeployment strategy should effectively provide for maximum utilization of domestic resources ensuring, on the one hand, a reduction of dependence from the economic strings of the developed countries and, on the other, the creation of new opportunities and employment vistas for the industrial workers of the developing world. Only through continuous dialogue and total cooperation could such an atmosphere be effectively brought about.

It would be necessary, in this context, to highlight the problems inherent in redeployment as far as the least developed countries are concerned. Obviously, in their case, the comparative advantage principle has little meaning since most of the LDC's have only the most rudimentary development of their natural resources. Special measures will, therefore, be necessary and specific institutions created for catalysing the industrial growth in these countries. Here both the developed as well as the developing countries can join hands to play an effective role and devise policies which could establish production capabilities in the LDCs. Country specific programmes need to be worked out and redeployment implemented in keeping with the economic rationale emerging in each case.

Finally, a word about anticipatory adjustment measures which are necessary in developed countries for easing the process of redeployment. A number of countries have enacted measures for adjustment assistance and the UNCTAD Secretariat, in its document TD/B/C.2/171 of May 1977, has highlighted these programmes in certain countries. It is unfortunate that, in most cases, adjustment assistance has meant the application of trade measures and subsidies, and other like activities, designed to meet problems or difficulties arising out of particular economic and social situations. The guiding consideration is prevention of domestic injury and the preservation of economic systems which are outmoded and inefficient at best and singularly anachronistic at worst. In none of these countries have adjustment assistance measures specifically been adopted to facilitate trade liberalisation or encourage the redeployment to developing countries of the industries in developed countries which are less competitive internationally, thus bringing about structural adjustments in the latter countries and a higher degree of utilisation of national and human resources in the former. Not unnaturally, therefore, such inversion of priorities succeeds in creating conditions which are but a step removed from protectionism.

It must be unequivocally recognized that anticipatory (as well as post facto) adjustment assistance has a positive and incremental role to play in bringing about and expediting the redeployment of industry. Measures taken should not just take internal setbacks into account but the larger international social and opportunity costs. Clearly the long run advantages of a stable world economic order should be the guiding concern rather than just solving imagined or actual domestic injury.

PART II

INDIA AND REDEPLOYMENT

The Indian approach towards the redeployment of industry forms part and parcel of the country's long term policies for industrial growth. India recognises that the transfer of industrial capacity from the developed to the developing countries is an essential aspect of the Lima Declaration which aims at raising the developing countries' share in world manufacturing to 25% by the year 2000. Industrial policies and programmes in India incorporate, therefore, provisions which would facilitate resources transfers from the developed world to India as well as to other developing countries with Indian assistance. In respect of redeployment, in fact, the Indian policies can broadly be divided into 3 categories:

(a) measures designed to attract the migration of resources and assets from developed countries to India;

(b) policies and programmes of the Government of India to promote the setting up of productive capabilities through direct bilateral channels in other developing countries; and

(c) programmes of multi-lateral technical collaboration among developing countries with Indian participation.

When India attained Independence in 1947, its economy bore the imprint of the colonial domination which it had had to sustain for the past two and a half centuries. The industrial infrastructure was rudimentary to say the least, technical expertise was at an abysmally low level, productive assets few and far between and capital resources almost non-existent. India's industrial growth had to begin virtually from scratch and the problems and tasks it faced seemed almost Herculean. Yet within a decade or two India was able to achieve a sustained level of industrial growth based on a framework of policy designed towards the eradication of poverty and the attainment of economic self-reliance. The essence of the Indian experience has been that there can be no short cuts to growth except through continuous self-dependence and prolonged hard work. Many sacrifices have has to be made but without these sacrifices no benefits of a lasting nature would have been possible. India has had to tap its own resources, develop its own genius and train its own factors in order to open out to its people new avenues for a richer and more varied life.

And yet India's concept of self-reliance has not meant the exclusion of foreign forces or influences which are in tune with the broad trends of national development. A significant case in point was the attitude of the Government towards transnational and foreign investments already in India when it achieved its independence. The Indian policy was based on the principle that approved foreign investment and foreign firms would be treated on par with domestic units on all matters such as development facilities, taxation, investment mobility, etc. In short, all foreign investment in India was treated as part and parcel of the Indian industrial structure without any discrimination or particularised treatment. For the future the Government's policy towards foreign investment and transnational firms has been regularised in the Foreign Exchange Regulation Act, 1973. The Act provides for general or special permission to be granted to all foreign companies to conduct new or existing business in India of a trading, commercial or industrial nature. It also prescribes the conditions under which foreign equity can be held in firms undertaking production or other business in India and stipulated different levels of equity holding for different

types of production activities. Thus an export oriented production unit is permitted larger foreign equity than is production necessitating sophisticated technology not available in the country. The Foreign Exchange Regulation Act imposes a uniform set of guidelines applicable to foreign investment in India and removes any doubt that there might be regarding evenhanded treatment for foreign investors.

The Government also takes positive steps to permit the inflow of modern technology in the larger interest of developing, within the country itself, a sound base for technological self-reliance. The necessity for the continued inflow of technology in sophisticated and high priority areas where Indian skill and technology are not adequately developed is recognised. However, there are certain broad guidelines issued by the Government from time to time and these guidelines have a universal applicability. Care is taken to see that the guidelines fit in with the national priorities as well as with the industrial needs of the nation and provide, at the same time, sufficient incentive for the foreign investor/collaborator to come to India. Foreign investment and acquisition of technology necessary for the country's industrial development are permitted on terms determined by the Government on a case by case basis. In such areas the policy preference is for outright purchase of the best available technology and then adapting such technology to the country's needs. Indian firms with foreign collaboration are required, in appropriate cases, to set up adequate research and development facilities so that import of technology is properly assimilated. The fact that India has not defaulted on a single foreign contract or rescinded to any contractual obligation has certainly been a major factor in attracting foreign capital and investments to the country.

Apart from the general provisions for foreign investment and foreign collaboration, India has recently taken a major step for the redeployment of industrial capacity from developed economies by encouraging the import of second hand machinery, plants and equipment for certain industries identified for the purpose. These include fertilizers; newsprint and paper; basic drugs; power generation, transmission and distribution; cement and cement products; petroleum exploration and production, etc. and are looked upon as industries of national priority.

For the redeployment of industry to developing countries through direct Indian participation or assistance, India has evolved a sound working policy. Such redeployment can either be Government backed or through private venture by Indian entrepreneurs. The first category covers instances where industrial projects are set up by India in a number of developing countries through direct financial and technical

participation. Excellent examples are to be found in some of the bilateral industrial ventures promoted by India in Bhutan, Nepal, Afghanistan, Indonesia, Tanzania, Thailand and Mauritius and other countries. Apart from these projects a large number of joint ventures have been set up in many developing countries by Indian entrepreneurs in collaboration with local associates.

Indian entrepreneurs have been venturing across the national boundaries in joint ventures only very recently even though private foreign investment and technology have been moving into various countries for quite some time. Since subsidiaries of majority companies have not been found appropriate to further the objectives of economic development, most developing countries have been increasingly favouring alternative arrangements such as joint ventures. Setting up joint ventures is consistent with the objective of fostering mutual cooperation between the less developed countries in stepping up the process of economic development. From the national point of view, the concept of joint ventures, being a natural evolution in international trade and economic relationships, has been accepted as one of the export promotion strategies. Besides, joint ventures yield normal benefits in the form of foreign exchange earnings, provide markets for capital goods and help retain and expand their established export markets. In accordance with these objectives, the Government has been encouraging Indian entrepreneurs in a selective way to set up joint ventures abroad.

The recent experience in India has shown that the performance of Indian joint ventures is encouraging in terms of meeting the objectives of the policy for joint ventures, i.e. (i) to extend development cooperation to the developing countries and (ii) to create opportunities for exports of India's capital goods, technology and know-how. Indian joint ventures are essentially located in the developing countries, contributing to their process of import substitution and industrialisation and in the process increasing export of technology intensive products from India.

Finally, the concept of redeployment would include Indian participation in multilateral technical cooperation among developing countries. India is keen to share its knowledge and expertise with other developing countries within the frame work of the Lima Declaration and Plan of Action. It has acquired the world's third largest technical manpower resources and is in a position to share this asset on a global basis. In particular, India has been attempting to promote regional technical cooperation as well as cooperation with countries from the Afro-Asian and the Latin American Groups. Specific sectors have been identified where multilateral technical collaboration can become a meaningful reality. These include design, manufacture and supply and

and installation of machinery and equipment for turn key engineering projects; supply of complete plant and equipment for industries like cotton and woollen textiles; cement and sugar mills; structural fabrication; power transmission lines; blast furnaces, etc. Multilateral technical collaboration would also include training and sharing of training facilities as well as a free flow of research and development knowledge. All such exchanges help to update industrial know-how and capability and helps in the creation of the infrastructure and environment facilitating deployment of industrial capacity.

CONCLUSION

It is obvious that the concept of redeployment is of relatively recent origin and has come in focus specially after the Lima Conference. It also seems that there are certain misconceptions as to the nature of its operative implications. If it is viewed in isolation from the broader perspectives of the development of international industry it can give rise to irrational fears of disruption in one sector of the world economy to benefit another. This, however, would be a grave distortion of the underlying spirit of redeployment. A universal economic uplift, based on the comparative advantage principle to ensure efficient production, is the basic goal of redeployment. Scarce global resources have to be worked to optimal efficiency and this means the creation of production capacity in places where the factor mix is most favourable. Through effective cooperation and understanding, redeployment can be made a powerful instrument in changing the international growth environment. What is of utmost necessity is a continuing dialogue between the different parties involved on the types of policies and programmes best suited to bring about redeployment. Long term perspectives rather than ad hoc measures are called for. India has had an opportunity of framing a set of policy guidelines relating to redeployment within the overall ambit of its industrialisation plans. This paper made an attempt to give an outline of those policies against a backdrop of the definition and operative principles of redeployment considered relevant for developing countries. It is hoped that such exercises will help clarify many aspects of redeployment and thereby usher in an area where resource transfers become an intrinsic attribute of world economic cooperation.